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ABSTRACT

A national project designed to examine issues of budget reform and quality improvement in higher education is described. The focus is state-level budget practices and their impact on institutions. Most of the funding for quality improvement has been categorical: a small percent of the budget is set aside to achieve particular quality or improvement objectives. Some examples are: special additions to the budget to support engineering, computer science, or other fields that are important to state economic development; budget additions to support "Centers of Excellence" or "Programs of Distinction;" incentive funding to achieve specified goals; and raising funds from private sources by matching funds. Budget allocation to satisfy various interest groups often leads to incremental funding and preserving the status quo. These conservative tendencies are enhanced by inflation and fiscal shortages. It is suggested that the budget can emphasize quality by: linking budget decisions to an academic evaluation process; practicing strategic planning; giving institutions more flexibility and more incentives for effective resource use; and implementing categorical programs, which can focus attention on the importance of quality objectives and their achievement. (SW)

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BUDGET REFORM TO IMPROVE HIGHER EDUCATION QUALITY

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Introduction

This program reports on a national project that is examining issues of budget reform and quality improvement in higher education. The focus of the project is on state level budget practices, and their impact on institutions. The project is supported by the Fund for the Improvement of Postsecondary Education, but the information and analyses we are presenting today represent our own views, and are not those of either FIPSE or our respective institutions.

The study phase of our project was conducted jointly with the Education Commission of the States and the National Association of College and University Business Officers, who had a FIPSE grant for a companion project. The study involved telephone contacts with higher education agency personnel in nearly all the states, plus letters of inquiry, and follow-up telephone interviews with institutional and other state personnel. Personal visits were made to several states to develop more detailed case studies of budget reforms and their impact on institutional operations.

The focus of our inquiry was on state budget practices that were designed to improve the effectiveness or quality of higher education, and on the evidence, if any, that these changes were actually achieving the desired results. Quality is a term with imprecise and variable

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meaning; everybody talks about it, but it is seldom assessed rigorously or systematically.

We have been able to describe what states have done to try to provide more explicit attention to quality issues, and to link them to the budget, but we have almost no systematic evidence about what is happening to quality, however defined.

The Context of the Study

First, most higher education institutions are having difficult financial problems, and are facing a period of fluctuating enrollment and uncertain fiscal prospects for the next decade. This is no news to you, but since necessity is the mother of invention, there is a great deal of interest in new ways of budgeting and financing. Proposals are being made to increase strategic planning, to reallocate resources, to diversify the support of higher education by increased private giving, partnerships with business, greater cooperation and program sharing among colleges, and charging the customers (students) a larger share of the costs. The environment is a good one for change, and individual institutions and states have been examining a number of new approaches to financing. My colleagues and I will discuss some of them.

Second, a new definition of accountability is developing in public education, and in a few states, this new definition is being applied to higher education. The new emphasis is on accountability for outcomes and results; it is being added to fiscal and procedural accountability.[1] The interest in outcomes, results, and quality improvement is affecting the way that budgets are being reviewed and justified. In the 1960's, educators said to legislators, give us more money so we can improve quality. In the 1980's, legislators are saying show us how you will

improve, and if it works, we will give you more money. The accrediting associations are also beginning to emphasize outcome measures, although there is little agreement on what measures will be used. These public and legislative expectations about connecting support to results have been around for a long time, but they are likely to get a lot more attention now that the growth period in higher education is over.

Third, the existing perception of legislators and state officials of quality in higher education is that it is pretty good (ECS 1981 survey), but there are a number of specific criticisms:

(1) Stronger programs are needed in engineering, science, and other fields that will make the state a more attractive environment for the new "high technology" industry.

(2) There should be better preparation of public school teachers.

(3) There is too much remedial work in college, and admissions standards are too low in some fields. A majority of states have raised standards for high school graduation and requirements for college entry in the last two years.

(4) Colleges try to be all things, and don't develop a clear mission and stick to it.

(5) Colleges don't do a good job of eliminating weak or duplicative programs. They should support their strong programs more adequately, and should avoid across-the-board funding.

(6) Colleges are not able to be innovative and flexible enough to deal with the rapid changes in student

clientele, and societal needs for new knowledge.

Institutions have entered the 1980's with budget systems that were developed during the growth period of the 1960's and 1970's. State budgets were justified on the basis of enrollment growth, equity among public institutions in support, and the amount of money they had the year before. These criteria give almost no explicit attention to quality. Most budgets contain few, if any, incentives for improved performance.

Budget reform is a priority in a number of states which are attempting to reduce the emphasis on enrollment factors in funding, increase the attention to quality issues, and provide incentives for institutional responsiveness. These objectives are hard to achieve because they can be in conflict with each other. If enrollment factors are deemphasized, some incentives for institutional responsiveness are also decreased.

Approaches to Quality Funding

Most of the funding for quality improvement has been categorical. That is, a small percent of the budget has been set aside to achieve particular quality or improvement objectives. These funds may become line items in future budgets, or they may be funds that are available for a limited time. They may be awarded on a competitive basis, or on a negotiated basis, or they may be specific budget additions for all institutions that meet certain criteria. The funds may have special accountability requirements associated with them, or they may be subject to the usual evaluation and reporting requirements. Some examples are:

(1) Special additions to the budget to support engineering, computer science, or other fields that are important to state economic

development and/or the attraction of more high technology industry. These additions usually become part of the base budget for future years; the need for them does not have to be rejustified every year.

(2) Special additions to the budget to support "Centers of Excellence" or "Programs of Distinction." There are several variations on this theme. Sometimes the centers are proposed by the institutions and are selected after review of proposals by outside evaluators. Sometimes the centers have to demonstrate periodically that they are making progress toward their objectives.

(3) Incentive funding to achieve specified goals. The state of Tennessee has a categorcal program in the budget that requires institutions tc develop measures of student learning and program effectiveness, and distributes funds to those programs that achieve specific objectives of accreditation, student learning, etc.[2]

(4) Several states encourage institutions to raise additional funds from private sources by matching funds raised by the institution with state awards. Sometimes the state matching money is for endowment of a chair or program, and sometimes it is used for current operations.

(5) Some states have state grant programs that operate on a competitive, peer review basis like federal research grant programs. They may be to encourage research (Louisiana), or instruction or academic improvement (Virginia). These programs typically award funds for a limited time, and do not become a part of the on-going budget of the institution.

A major criticism of these categorical programs is that they are small add-ons to budgets that are typically incremental, and that provide funds on the basis of what is done, rather than how well it is done. Inflation and the end of growth have had a strong influence in

increasing the incremental, non-judgmental nature of budget decisions. When inflation is greater than the available increase in revenue, the tendency is to give across the board increases, and spread the cut in real income equitably among everyone. The end of growth makes it harder to get funds to start new programs, or upgrade especially significant programs.

Most budget request processes are not linked to formal or rigorous evaluation systems. Judgements about quality and effectiveness are difficult in higher education, and decisions about standards, personnel, appointments, and the substance of education is highly decentralized in higher education. Groups within institutions have multiple and vague goals, and few incentives to reallocate resources.

The key evaluation of higher education services is the market; the choices of students about programs and institutions, and the choice of research funders among faculty proposals. The market evaluation is based on other important criteria in addition to quality; price, and accessiblity being the most important.

One state strategy for making institutions more effective is to make their budgets more market sensitive. Colorado is an example of a state that has made the allocation of funds closely related to enrollment, and has given institutions more flexibility to set their own tuition.[3] In addition, a modified state budget process has increased the incentive that the institution has to raise more money from non-state sources and manage its resources more effectively.

The majority of states have moved in the other direction, and have reduced the relationship between enrollment and appropriations. This protects institutions that are losing enrollment from a sharp drop in

appropriations.[4] Decoupling enrollment from appropriations may maintain quality of entering students, because the institution is not motivated to enroll unqualified students. This advantage may be offset by making the institution less sensitive to the needs of their clients and slower to face up to the need to improve curricula and instruction.

Summary

The dominant basis for allocation in most state budget systems is to satisfice the various interest groups.[5] This leads in most situations to incremental funding which tends to preserve the status quo. These conservative tendencies are enhanced by inflation and fiscal shortages. During hard times, across-the-board cuts or increases are the most politically acceptable. How can the budget give more emphasis to quality?

(1) Linking budget decisions to an academic evaluation process is essential if the budget is going to be used to increase institutional effectiveness.

(2) Strategic planning is also important to improve budget decisions.

(3) Making institutions more market sensitive may enhance quality, but institutions may lower standads to attract and retain students.

(4) Giving institutions more flexibility and more incentives for effective resource use, may lead to more quality.

(5) Categorical programs can focus attention on the importance of quality objectives and their achievement.

The principles suggested above sound like a prescription for a new PPBE system--better planning, good evaluation, clearer goals. Institutions tried formal PPBE during the 1960's and early 1970's and

found that it didn't fit the political culture and organizational characteristics of higher education. In the 1980's and 1990's higher education will need new budget systems that fit the political realities, and also encourage change, renewal, and reallocation of resources.

NOTES

1. Carol Floyd State Planning Budgeting and Accountability. Washington: AAHE-ERIC Higher Education Research Report No. 6, 1982. Also Education Commission of the States Accountability and Academe Denver, Education Commission of the States, 1979. Report No. 126.

2. William Pickens "Performance Funding in Higher Education, Panecea or Peril?" in Robert Wilson (ed.) Survival in the 1980's Quality Mission and Financing Options. (Tucson: University of Arizona Center for the Study of Higher Education, 1983).

3. Marilyn McCoy "The Adoption of Budget Flexibility in Colorado: Its Consequences for the University of Colorado" in Jim Mingle, ed. Management Flexibility and State Regulation in Higher Education Atlanta Southern Regional Ed. Bd. 1983.

4. John Folger "Do We Need New Rules for the Budget Game" Paper Presented at the American Council on Education Meeting 1982.

5. Aaron Wildavsky Budgeting: A Comparative Theory of Budgetary Processes 1975.